

## INQUIRY INTO GENTRADER TRANSACTIONS

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Date received: 14/01/2011

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14<sup>th</sup> January 2011

Upper House Inquiry to Gentrader Transaction  
Parliament House  
Macquarie Street  
Sydney NSW 2000

Dear Inquiry,

**Submission to the NSW Upper House Inquiry into the 'Gentrader transaction'**

I write this submission as a member of the NSW community and as a citizen of Australia. The sell-off of this vital public asset is wrong and does not serve the interests of current or, more importantly, future generations of New South Welshmen and women.

Some of the main points that I would like to highlight are listed immediately below, but I have also included (after the signature block) two further discussions that talk about the Victorian and South Australian experiences with electricity privatisation. If, as learned members of society, you do not seriously consider the system effects of your decisions then we, as a society, are deemed to continue to make mistakes.

Reasons I believe would make electricity privatisation a terrible, terrible decision:

- ◆ Reducing NSW's contribution to climate change will be much more difficult and expensive if the private sector has control of the generator outputs.
- ◆ Household power bills will increase as the "gentraders" seek to make more profit.
- ◆ Jobs will be lost after the protection period expires.
- ◆ NSW is losing a valuable income stream worth much more than the \$5.3 billion sale price. The assets that have been sold return \$750 million a year.
- ◆ Secret deals to subsidise coal prices for the gentraders mean that NSW taxpayers will be footing the bill to pay for cheap fuel for the gentraders for years to come while they make profit - effectively slugging taxpayers twice!
- ◆ The NSW government has no mandate to sell the gentraders or the retailers. Privatisation was not mentioned during the last election. Opinion polls show that the people of NSW oppose electricity privatisation. **Parliament has an obligation to tell the government they should cancel the contracts and keep all of the power industry in public hands.**

There are of course other issues surrounding this deal that create a high amount of suspicion and concern amongst the general public. The fact that Directors of the state-

owned generators resigned en-masse highlights that something is not right. The proroguing of parliament and intimidating inquiry witnesses show that something is not right. I (we) as community members have a right to know what Treasurer Roozendaal and the Keneally government have done to our power assets. We deserve to know about these "secret" deals being made on the behalf of the people of NSW and the gentraders.

I and all of my family oppose the sell-off of our power industry.

sincerely,

## Electricity Privatisation - The Victorian Experience

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*(from "Neo-liberal think tanks and neo-liberal restructuring" by Damien Cahill and Sharon Beder, 2005)*

Prior to Jeff Kennett's election, the government-owned State Electricity Commission of Victoria (SECV) was responsible for the supply of electricity in Victoria. An influential lobby group called Project Victoria recommended the corporatisation and privatisation of the State's electricity supply, generation and distribution arguing that this would lead to lower prices for electricity consumers and more efficient management of the industry.

A 1991 report entitled, "Victoria An Agenda for Change" noted that the SECV had been one of the least productive electricity providers in Australia but that performance had improved markedly during the late 1980s. However, it argued that more improvement would be possible under private ownership which could provide the incentives of 'profit motive, and the disciplines associated with the markets' to 'eliminate waste and inefficiency' (Moore & Porter 1991, 4-4, 4-5).

In contrast, an Electricity Supply Association study of 1000 utilities around the world found that SECV was in the top ten for efficiency of resource use and that it was also highly efficient in terms of technical efficiency of distribution. And a study by London Economics in

1994 found SECVs resource efficiency compared favourably with best practice utilities worldwide (Cited in Anon. 1995, 4; Miller 1995, 6).

The SECV in fact delivered affordable electricity to consumers whilst making a healthy profit. In 1992/3, the year before it was broken up, 'it paid \$995 million in interest, a \$191 million dividend to the State Government, and had a profit of \$207 million' (Skulley 1995). In addition a 1994 Bureau of Industry Economics study found that Victoria's electricity prices to industry were eighth cheapest out of 40 OECD countries (Anon. 1995, 4). That Project Victoria nonetheless called for the privatisation, deregulation and corporatisation of the State's electricity demonstrates its ideologically driven nature. The Project Victoria report authors were also critical of community service obligations of the state-owned electricity industry, including things like:

- ◆ uniform tariffs across the State to cross-subsidise remote customers;
- ◆ participation in the Victorian Government's "Social Justice Strategy", which reduces the number of supply disconnections for non-payment of accounts and imposes no penalties for late payment;
- ◆ financing one third of the capital cost of new major public lighting schemes;
- ◆ financing under-grounding or relocation of power lines where a clear community benefit exists;
- ◆ providing the Home Energy Advisory Service free to people on low incomes; and
- ◆ satisfying non-statutory environmental obligations (Moore & Porter 1991, 4-6)

According to Project Victoria, these obligations caused business users to be overcharged by 28 percent (not including farmers who were subsidised) and impeded 'competitiveness by distorting service provision' (Moore & Porter 1991, 4-6).

After its election in 1992, the Kennett government did indeed privatise the Victorian electricity industry. The first step towards privatisation was the unbundling of the SECV into three businesses in 1993: Generation Victoria, National Electricity – responsible for transmission – and Electricity Services Victoria – responsible for distribution and supply. These were eventually broken up further and sold to private interests. The government also established an elaborate power pool whereby electricity was traded among generators and suppliers.

In 2000-1 the price of electricity in the National Electricity Market increased by 60%. When retail deregulation was introduced in Victoria, price caps continued with 'safety net' prices being set by the government to avoid the political implications of these large price increases. Unable to pass wildly fluctuating deregulated wholesale prices onto consumers, some privatised Victorian retailers sought to sell up. Others got around government price caps by increasing off-peak electricity rates by 175 percent and decreasing peak rates to ensure average increases met with the price caps. This particularly affected farmers who

take advantage of off-peak rates for many energy intensive activities. As a result many farmers saw their overall rates increase by up to 60 percent (Beder 2003, 236-40).

Competition decreased as incumbent players consolidated their power throughout Australia. By 2002 some 30 percent of the retail market was up for sale. The prospect of 're-aggregation' in the industry increased as mergers and acquisitions occurred. The deliberate disaggregation of the electricity industry to create competition is being undone by this consolidation.

Privatisation of electricity in Victoria had failed to deliver any increased generating capacity and generator breakdowns were threatening blackouts. Prices had increased particularly for low-income households. Ironically businesses too, which had been prime drivers of privatisation, suffered from rising wholesale prices after 2000 (Beder 2003, 236-40).

Such privatisation programs were not driven by popular opinion (Beder 2003). Instead of consultation the Victorian Government spent \$1.8 million on an advertising campaign to promote the sale of the electricity industry. Nevertheless an AGB-McNair Age poll found that 60 percent of those surveyed opposed privatisation. A coalition of many church, welfare, environmental groups and unions – Public First — was formed to oppose privatisation of electricity, gas and water. A spokesperson for the coalition, Jim Ritchie, argued that privatisation would merely be 'shifting the debt from the public to the private sector' and provide 'no incentive for energy conservation or moving to sustainable sources.' (Skulley 1995)

Privatisation was also seen as a way of allowing private firms 'to get a piece of the action' (Porter 2001) – and it is little wonder that the major beneficiaries of electricity privatisation were business interests.

## References

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## Victoria and SA: private power's "shining lights"

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*By Kenneth Davidson, "The Age" September 14 2002*

When will they ever learn? The federal Minister for Industry, Ian Macfarlane, told senior executives attending the national power industry conference in Melbourne last week he was concerned the states were showing signs of "reform fatigue, or, more accurately, reform shyness".

What worried the minister was that some states were becoming increasingly reluctant to privatise their electricity supply industries as already done in Victoria and South Australia.

And why would they, if they have any sense? Victoria and South Australia have the highest electricity prices in the land, and these high prices can be traced back to the "reforms" Macfarlane wants to foist on the other states.

Relative prices have increased in Victoria and South Australia because generating capacity has not grown in line with demand and there is insufficient transmission capacity to make up the shortfall by bringing in electricity from Queensland and NSW.

There has been no new base-load generating capacity built in Victoria since 1992. The reason is nobody has been responsible for ensuring adequate supply to meet demand since the SECV was broken up and sold in the mid-1990s. The privatised generating companies have a vested interest in supply shortages because this drives up the price of electricity they sell into the grid through the national electricity market.

The prices received by generators in Queensland and NSW, as well as in Victoria and South Australia, have increased as a result. Generator profits increase at the expense of electricity retailers. This doesn't matter in Queensland and NSW because the state governments have maintained ownership (and control) of their systems, even though they have been broken up into competitive generating, transmission, distribution and retailing businesses. Thus the extra profits on the swings (the generators) have been used to subsidise the losses on the roundabouts (the retailers) and the consumer has not felt a thing in these two states.

In Victoria and South Australia the generation and retailing businesses are separately owned, so that higher prices for wholesale electricity have to be passed on by retailers to their customers.

And what adds spice to the situation as far as Queensland and NSW electricity consumers and taxpayers are concerned is that the electricity they sell south of the Murray is subsidised by Victorian and South Australian consumers.

Neither government is likely to give up this cosy arrangement in order to share the grief visited on the people of Victoria and South Australia.

In the case of South Australia, the previous government blocked the building of additional transmission capacity from NSW - which would have alleviated their present power shortages - because this would have undermined the sale price of their antiquated power station. In Victoria, the excuse for selling the SECV was that it was "broke" because it had just over \$10 billion in debt. In the event the SECV was sold for \$24 billion.

Beaut, everybody said. The problem is that before privatisation, Victorian electricity prices had to service a debt of \$10 billion. Now electricity prices have to cover the cost of a mixture of debt and equity of \$24 billion.

And who is held responsible if the industry cannot meet peak demand? The generators, distributors and retailers, or the government? Who do you blame if there is a blackout?

Despite the manufactured hysteria by the Kennett government about Victoria's debt burden, the SECV was built up from the 1920s on public debt. Its operations and capital investment never cost the taxpayer a cent. In fact, until it was sold, it paid the state a handsome dividend, as well as providing Victorians with cheap electricity.

So why should Queensland and NSW follow the Victorian example? According to Macfarlane, "It is simply not appropriate for governments to act as both legislator and regulator and owner-operator in the same market."

But surely the whole point of the structure of the electricity supply industry is to get what works best. If competition policy frustrates this objective then it is humbug, not high principle.

The way the national energy market is constructed - so that generators bid to supply half-hour blocks of electricity - maximises greenhouse gas emissions from Victoria's brown-coal-fired power stations.

The most economically and environmentally efficient power stations are ones that operate 500 megawatt turbo-generator sets. Unfortunately, these generators take 12 hours to start up and they cannot be switched on and off at will without the risk of damage to the generators.

Victoria's oldest and least efficient generator is Hazelwood, which has eight 200 megawatt generators that generate more greenhouse gas emissions per unit of electricity than any other brown-coal-fired power station.

Under the old SECV system, fluctuations in demand were met by bringing stations on or off according to the merit system. This would mean that Hazelwood would have been mothballed for at least 10 months of the year and only brought back on line during the seasonal peak in demand around February-March.

Private generators make money by selling electricity, not encouraging its conservation. An integrated electricity supply monopolist can make money out of conservation.

If Macfarlane looked at what is happening in the electricity market rather than listen to the neoliberal ideologues who are prepared to push the competition/privatisation agenda irrespective of cost, he would be seeking ways of repairing the damage to the industry in Victoria and South Australia rather than trying to push Queensland and NSW down the same path.